Approved For Release 2009/10/06 : CIA-RDP85T00875R00160001

Approved For Release 2009/10/06 : CIA-RDP85T00875R00160001

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4 /SER

25X1

**Secret**

DIRECTORATE OF INTELLIGENCE

# Intelligence Memorandum

## *Potential Venezuelan Oil Exports to Rumania*

**Secret**

ER IM 68-110
SEPTEMBER 1968

COPY NO. 26

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

# WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC DOWNGRADING AND DECLASSIFICATION

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4





CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
September 1968

INTELLIGENCE MEMORANDUM

## Potential Venezuelan Oil Exports to Rumania

### Summary

The recent Venezuelan-Rumanian "agreement of intention" to expand trade, if carried out, would have only a small impact on Venezuela's total trade but could lead to a more general expansion of economic relations with the Communist world. The agreement, signed in May 1968, calls for the exchange of 11 million tons* of Venezuelan crude oil over 10 years for $125 million worth of Rumanian goods and services. Such an exchange would be economically beneficial to both countries.

Venezuela has been interested in developing new export markets for petroleum since the early 1960's, when the growth rate of petroleum exports began to slacken. More recently, Venezuelan officials have been concerned about the effect on their petroleum exports of efforts in the United States to reduce air pollution by limiting the sulfur content in fuel oil. Rumania, on the other hand, needs to expand its imports of crude oil in order to increase exports of refined products, particularly to Western Europe, where it earns badly needed hard currency. Oil imports from Venezuela would supplement those previously arranged with Iran and Saudi Arabia.

---

** Unless otherwise indicated, tonnages are given in metric tons.*

*Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.*





Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4



Exports of petroleum probably would not reach the average annual level of 1.1 million tons covered by the agreement until about 1970, because the Venezuelan government is only now beginning to develop its own petroleum sources and exports. Aside from petroleum, Venezuela's opportunities to expand trade with Rumania are small, and a large increase in trade is unlikely during the next several years. Over the longer term, however, trade between the two countries could grow substantially, particularly if Rumania takes the opportunity open to it to help develop Venezuelan petroleum resources under Venezuela's new development rules.



Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4



## A New Trade Accord

1. One of the notable Latin American trade developments of recent months is Venezuela's step to expand economic relations with the European Communist countries. Venezuela heretofore has had little diplomatic or commercial contact with these countries. In 1966, for example, Venezuelan imports from the European Communist countries amounted to only $8 million, or less than 1 percent of total Venezuelan imports, and exports to them were negligible. Venezuela resumed diplomatic relations with Rumania in February 1967, after a lapse of 22 years, and in May 1968 signed an "agreement of intention" to considerably expand trade between the two countries.

2. Under terms of the new agreement, which was signed by the government-owned Venezuelan Petroleum Company (CVP) and the Rumanian state enterprise, Industrialexport, the latter would take 11 million tons of crude oil from CVP in the next 10 years. The agreement calls for Venezuela, in turn, to import $125 million in Rumanian goods and services, including equipment for the petroleum, petrochemical, mining, and metallurgical industries. Prices of Venezuelan oil and Rumanian goods under the agreement are unknown On the basis of the agreement, however, Venezuela would receive the equivalent of $1.55 per barrel in Rumanian goods. This low price may be offset by the advantages to Venezuela of entering a new market.

## Venezuela's Economic Motives

3. The interest of the Venezuelan government in expanded trade with Rumania is an outgrowth of both economic and political factors. Although exports of petroleum -- which account for 92 percent of the total value of Venezuelan exports -- reached a new high of 171 million tons in 1967, the growth of petroleum exports has slackened considerably since the early 1960's. The Venezuelan government is interested in new markets because of the difficulties in maintaining and expanding these exports. Some of the demand for Venezuelan petroleum that was generated by the Middle East crisis in 1967 has begun to disappear as production and exports elsewhere adjust



Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4



to the new situation. Competition from producers in the Middle East and Africa restricts expansion of Venezuelan exports to Western Europe.

4. Venezuelan officials and businessmen are discouraged by the long-term outlook for petroleum exports to the United States. Venezuela exported about 40 million tons of fuel oil to the United States in 1967, but current and prospective restrictions on the sulfur content of fuel oil burned in certain areas in the United States will make it difficult for Venezuela to retain this large market. Legislation aimed at reducing air pollution limits the sulfur content of fuel oil used in the New York metropolitan area to 2.29 percent. The sulfur content must be reduced to 2 percent beginning in April 1969 and to 1 percent in April 1971. Moreover, the US Department of Health, Education, and Welfare has set a maximum of 0.3 percent for the sulfur content of fuel oil used by federal installations in the New York area and of 0.6 percent for those in Philadelphia and Chicago.

5. The petroleum industry estimates that reduction of the present 2.6-percent sulfur content of Venezuelan fuel oil to 2 percent would require investments in desulfurizing facilities of $50 million to $100 million per refinery. This expenditure would raise the cost of a barrel of Venezuelan fuel oil by $0.24 above the current posted price of about $2.00 per barrel at Caribbean refineries. To reduce the sulfur content to 1 percent would increase the cost per barrel by about $0.40. The government consequently has a strong incentive to promote sales of crude oil in new markets where the requirements for sulfur content are not as stringent. Another incentive is the US oil import quota system, which in practice favors Canadian oil over that of Venezuela. Under this system, overland shipments of crude oil, which come mainly from Canada, are subject to less restrictive quotas than are shipments by sea. The Rumanian deal would provide a new outlet for Venezuelan crude, and Venezuela would be able to acquire capital goods without expending hard currency.

6. The Venezuelan government may also hope that the oil deal will pave the way for eventual export of



Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4



other goods to Rumania and to the other European Communist countries. Since 1958, Venezuela has accelerated its efforts to diversify its economy and thus reduce its dependence on the petroleum industry. The government believes that several manufacturing industries developed in recent years can produce products for export, including rubber, textiles, petrochemicals, iron and steel products, and metal manufactures. So far, however, Venezuela has had little success in exporting these products, most of which are high priced at the present exchange rate and are of indifferent quality.

## Political Considerations for the Leoni Government

7. The government's interest in trade with European Communist countries is also a matter of political tactics. President Raul Leoni Otero has been under increasing pressure from opposition political parties and commercial interests to establish closer economic relations with Communist countries, relations that are politically more feasible now than they were formerly. Caracas had almost no contact with the Communist nations during the conservative, military-supported regime of Perez Jimenez (1948-58). Only a slight improvement in relations occurred under the coalition government of Romulo Betancourt (1959-64), which received some commercial and diplomatic representatives from Communist countries and permitted small amounts of trade with them.

8. The Leoni government, a moderately leftist coalition that took office in February 1964, initially linked an improvement in relations with Communist countries to the ending of Communist insurgency in Venezuela. In recent years, however, insurgency has become a less important deterrent to closer relations. Urban terrorism has declined and rural guerrilla activity has been hampered by the government's counterinsurgency operations. Moreover, there is a growing tendency in Venezuela to blame the insurgency on Castro, who is directing and financing the insurgents, rather than on the European Communist countries.



Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

9. Some Venezuelan officials now view a trade accord with Rumania as a means of countering domestic political pressures, because it robs certain elements of the opposition of a possible issue in the national election to be held in December 1968. The government's actions are also responsive to the interest of the Chamber of Commerce and various influential businessmen in expanded markets. In addition, Leoni may be hoping that increased trade -- or even talk of trade -- with the Communists will have a salutary effect on Venezuelan economic relations with the United States. Venezuela is interested in securing a larger quota for crude oil and petroleum products under the US petroleum import program. The Leoni government has maintained that, in view of the probable decline in exports to the United States, Venezuela must search for new markets, even in the Communist world.

Rumania's Need for Venezuelan Oil

10. For Rumania the accord is the latest in a series of steps to obtain supplies of crude oil in order to increase its exports of refined products. Crude oil production in Rumania, which amounted to 13.2 million tons in 1967, is expected to increase by only about 1 million tons by 1970 and 2 million tons by 1975. Refinery capacity, however, is expected to rise from the present 14 million tons to between 17 million and 18 million tons by 1970 and to between 22 million and 23 million tons by 1975. If these goals are met, Rumanian refineries will be able to process about 3 million to 4 million tons of imported crude oil a year by 1970 and 6 million to 7 million tons a year by 1975.

11. Rumania is interested in processing more imported crude oil because exports of refined products already are a significant source of convertible foreign exchange and could become even more important. In recent years, about half of Rumanian petroleum exports have gone to Free World countries, chiefly to Western Europe for hard currency. Most of the remainder has gone to Eastern Europe and the USSR on a barter basis. The manufactures-for-oil barter agreements that Rumania has already negotiated with

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4



Iran and Saudi Arabia* provide about as much imported oil through 1970 as Rumanian refineries will be capable of processing if capacity expands as planned. Rumania has been interested in obtaining additional crude oil on barter terms outside the Middle East because both Iran and Saudi Arabia have placed limitations on the quantity of Rumanian goods they will accept in exchange for their oil. The agreement with Venezuela would assure Rumania of an additional source of crude oil to meet its growing import needs after 1970.

12. In competing for markets in Rumania, Venezuela is pricing its oil competitively with that covered by the Saudi Arabian and Iranian agreements. Venezuela has a transportation advantage at present because the main direct route from Persian Gulf ports to Rumania via the Suez Canal is closed, and the principal alternative route around the Cape of Good Hope is about 12,000 nautical miles. By contrast, the distance from Venezuelan to Rumanian ports is only 5,400 nautical miles. For Rumania, the cost of the long haul around the Cape cannot be offset by the use of low-cost supertankers because Rumanian ports will be unable to accommodate ships larger than 50,000 deadweight tons for the foreseeable future. If and when the planned Israeli and Egyptian oil pipelines are completed (1969 for the former and 1971 for the latter, according to present plans) the cost of transporting Middle Eastern oil to Rumania will be cut markedly and Venezuela probably will then have to cut its price to remain competitive. The quality of Venezuelan crude oil does not have any important advantages or disadvantages for Rumanian refineries, compared with Middle East crudes.

* *The agreement between Iran and Rumania provides for delivery of some 3.5 million tons of crude oil from Iran during 1968-70 under a three-year agreement signed in early 1967. The Rumanian-Saudi Arabian agreement provides for delivery to Rumania of 9 million tons of crude oil during a four-year period beginning in 1968, in exchange for Rumanian goods and industrial equipment valued at an estimated $100 million.*



Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4


## Administrative Arrangements in Venezuela

13. Because nearly all of Venezuela's crude oil is produced and marketed by US and British-Dutch companies, only a small amount of oil is immediately available to the Venezuelan government. CVP's production is rising, however: it increased from 220,000 tons in 1966 to 406,000 tons in 1967, enabling CVP to export a small amount of crude oil for the first time.

14. In addition to obtaining crude oil from its own wells, CVP probably will acquire increasing quantities of crude oil within the next several years under Venezuela's new laws governing oil exploration and development. Future petroleum agreements must be service contracts, rather than concession arrangements, and they will establish a form of partnership between CVP and foreign petroleum companies (private or government). Production may be divided between CVP and the development company, or the development company may dispose of all the crude oil produced, making equivalent royalty payments in cash to CVP. The most commonly mentioned split in revenues is 30 percent for the development company and 70 percent for CVP. The service contracts will last 23 years -- three years for exploration and 20 years for development -- and at the end of the period all of the producing area will revert to CVP.

15. The entry of Rumanian goods into Venezuela would require arrangements for distribution and servicing and for supplying spare parts. Even with these facilities, the Venezuelan government may find that buyers will be reluctant to accept Rumanian goods, because they are accustomed to machinery and equipment imported mainly from the United States. This problem was apparent in 1966, when Venezuela bartered 20,000 tons of surplus rice for Polish tractors and agricultural equipment. SUCAM, a cooperative set up by the Venezuelan farmers' union to distribute the machinery, encountered considerable resistance and at the end of 1966 still had much of the machinery on hand. Several Polish technicians arrived in Venezuela to train local mechanics, but farmers lacked confidence in the machines and were concerned about the availability


Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4



of spare parts. In recent years, Venezuela has been importing between $5 million and $8 million in goods annually from Communist countries. These imports have consisted chiefly of consumer products and have been distributed through normal commercial channels in Venezuela.

## Implications for Venezuelan Trade

16. It is unclear how definite a commitment Venezuela and Rumania have made in signing the "agreement of intention." During the past 12 years, a number of Latin American governments have negotiated ambitious trade agreements with European Communist countries, accepted economic credits, and made other arrangements for closer economic relations -- all to relatively little effect because of political or economic obstacles. The barter oil deal with Rumania, however, has a precedent in the Iranian and Saudi Arabian agreements, now being implemented. In any case, the projected exchange with Rumania would make only a small ripple in Venezuela's trade flows. Average annual amounts of trade scheduled in the accord are equivalent to only 0.5 percent of Venezuelan exports and 1 percent of Venezuelan imports in 1967.

17. It is unlikely that Venezuelan trade with Rumania will reach large proportions during the next several years. For the longer term, however, there appears to be a solid economic basis for increased Venezuelan-Rumanian trade. The trade accord could also pave the way for Rumanian participation in the development of Venezuelan petroleum resources under service contract arrangements. The president of CVP has already stated that if Communist countries are interested, they will be permitted to exploit petroleum resources under the government's new laws. Rumania, Poland, and Czechoslovakia are reported to be studying the new petroleum development laws.

18. Venezuela has little opportunity to expand trade with Rumania, outside of petroleum. The exports of other Latin American countries to Eastern Europe have consisted of primary commodities such as coffee, bananas, cocoa, and hides. Venezuela's most important exports next to petroleum are iron ore



Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4

Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4


and coffee. The Venezuelan iron ore industry is controlled by subsidiaries of two US firms that ship about 70 percent of their ore to the United States and most of the remainder to Western Europe. Although Rumania imports iron ore, Venezuela would be unable to supply ore unless the government developed its own supplies or made arrangements to receive royalties in kind from US companies. Venezuela could export small amounts of coffee to Rumania, but coffee has a low priority on Eastern European import lists. Substantial exports of Venezuelan manufactures to Rumania or other Eastern European countries are unlikely at least for some time.


Approved For Release 2009/10/06 : CIA-RDP85T00875R001600010060-4